Billing and Collection Processes

The Department currently bills its residential customers and some small commercial customers bi-monthly and all other customers monthly. Such bills are due within 15 days of receipt. The Department has established various payment programs for its customers, including a levelized monthly payment program and an electronic funds transfer program. Accounts receivable write-offs by the Department in 2001 and 2002 were less than one percent of energy sales revenue. The Department's collection policy provides for disconnection of power for nonpayment of amounts due the Department, subject to statutory prohibitions against disconnecting customers in winter months.

Financial Policies

The rate covenants in the Department's Parity Bond ordinances do not require the Department to set rates that achieve a specific level of debt service coverage on Parity Bonds. However, the City Council has adopted by resolution financial policies to be used by the Department in setting rates. From 1990 through December 2001, these policies required that rates be set at levels that would be expected to provide debt service coverage of 1.80 times debt service on Parity Bonds. In December 2001 the City Council adopted by resolution new financial policies which require that rates be set at levels that will provide 95 percent confidence that net revenue available to fund capital requirements will be greater than zero, after payment of all operating and maintenance expenses, debt service, City taxes, deposits to the Parity Bond Reserve Fund, and other current obligations. Coverage is expected to exceed 2.0 times debt service on Parity Bonds under the new rate-setting policies. The new policies additionally require that, in the first two years in which they are in effect, rates be set at levels which will allow the accumulation of a $25 million contingency reserve account. The new rate-setting policies will take effect after the Department has retired all short-term debt obligations, including the 2002 Notes and the amounts borrowed from the Cash Pool, and has accumulated an operating cash balance of $30 million. Rates will remain at current levels until the new policies take effect, unless increased by the City Council or otherwise changed to pass through increases or decreases in Bonneville rates. See "Power Resources—Purchased Power Arrangements." The Department expects that the conditions which will allow the new financial policies to take effect will be met in mid-2004. See "Historical and Projected Operating Results." The Department's financial policies are subject to change by the City Council.

CUSTOMERS, ENERGY SALES AND PEAK LOADS

Service Area

The Department's 131 square-mile service area consists of the City plus areas extending three to four miles north and south of the city limits. Because of these geographic limitations, the growth of the Department's electric load has resulted exclusively from development within the service area.

Sales to customers located outside the City's boundaries but within the service area represent approximately one-sixth of retail energy sales and revenues. The Department has a franchise agreement with King County that extends until 2007 and franchises with the cities of Shoreline, Burien, Lake Forest Park, SeaTac, and Tukwila that expire between 2015 and 2018. These six jurisdictions represented over 99 percent of the Department's retail energy sales outside the City in 2002. The Department's service area also includes portions of the cities of Normandy Park and Renton.

Largest Customers

The Department's ten largest customers in 2002, in order of their maximum kW demand, were the Boeing Company, Nucor Steel Company (formerly Birmingham Steel Company), the University of Washington, King County, the United States Government, the Jorgensen Forge Corporation, Saint Gobain Containers, the City of Seattle, Seattle Public Schools, and Unico Properties/Union Square Ltd. These customers accounted for approximately 15.2 percent of retail energy sales and 12.9 percent of retail energy revenues in 2002. The load factors of these customers ranged from 6.7 percent to 77.8 percent, with an average load factor of 40.1 percent.